

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 15493 01 OF 02 161733Z

46

ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 EURE-00 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-03 INR-07 IO-10 NEA-10 NSAE-00

OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01

STR-04 SS-15 NSC-05 L-03 H-02 PRS-01 PA-01 USIA-06

AGR-05 /116 W

----- 058115

P 161715Z JUN 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC PRIORITY 7559

INFO AMEMBASSY TOKYO PRIORITY

LIMITED OFFICIAL USE SECTION 01 OF 02 OECD PARIS 15493

E.O.11652: N/A

TAGS: ECON, OECD

SUBJECT: PREVIEW OF EDRC ANNUAL REVIEW OF JAPAN, JUNE 20

REFS: (A) USOECD 15138

(B) USOECD 13949

(C) OECD DOCUMENT EDR(75)13

1. SUMMARY: SECRETARIAT SEES DECLINE IN ECONOMIC ACTIVITY BOTTOMING OUT IN SECOND QUARTER, WITH MODERATE UPSWING IN FINAL TWO QUARTERS AND MORE RAPID ACCELERATION IN EARLY 1976. MAIN STIMULUS BEHIND RECOVERY WILL BE PUBLIC INVESTMENT EXPENDITURE, INVENTORY RESTOCKING AFTER COMPLETION OF PRESENT DECUMULATION, FIRMER CONSUMPTION EXPENDITURE AND DEMAND FOR RESIDENTIAL CONSTRUCTION, AND RECOVERY OF EXPORT DEMAND TOWARDS END OF YEAR. SECRETARIAT SEES REAL GNP DECLINING IN 1975 FOR SECOND YEAR IN ROW (BY -0.5 PERCENT) DUE TO WEAKER THAN EXPECTED FIRST HALF PERFORMANCE AND ONLY MODEST RECOVERY IN SECOND HALF. SECRETARIAT GIVES CREDIT TO JAPAN FOR

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 15493 01 OF 02 161733Z

REMARKABLE REDUCTION IN RATE OF PRICE LEVEL INCREASE TO

ESTIMATED 9.75 PERCENT IN 1975, AND FOR BRINGING BACK CURRENT ACCOUNT TO EXPECTED ZERO BALANCE DURING YEAR. SECRETARIAT HAS DOUBTS, HOWEVER, THAT CURRENT LEVEL OF FISCAL AND MONETARY STIMULUS IS SUFFICIENT TO ASSURE SUSTAINED GROWTH OF ECONOMIC ACTIVITY, AND RECOMMENDS THAT FOR BOTH DOMESTIC AND INTERNATIONAL REASONS, JAPAN SHOULD BE LESS CAUTIOUS IN ITS EFFORTS TO TAKE UP DOMESTIC SLACK. ACTION REQUESTED: COMMENTS AND QUESTIONS FROM WASHINGTON AND TOKYO IN TIME FOR ANNUAL REVIEW JUNE 20. END SUMMARY.

2. GENERAL OUTLOOK: SECRETARIAT SEES UPSWING BEGINNING IN THIRD QUARTER AND PICKING UP SPEED IN FIRST HALF OF 1976. THEIR OUTLOOK IS FOR RELATIVELY MODEST INCREASE IN REAL GNP OF 2.5 PERCENT IN 1975-II AND STRONG EXPANSION OF 6.3 PERCENT IN 1976-I. (N.B.: THIS CONTRASTS WITH JAPANESE FORECASTS AT RECENT SHORT-TERM FORECASTERS MEETING (REF A) OF 7 PERCENT GROWTH IN 1975-II AND 7.5 PERCENT IN 1976-I.) HOWEVER, BECAUSE OF POOR PERFORMANCE IN FIRST HALF OF 1975, FULL YEAR REAL GNP GROWTH MAY BE NEGATIVE AT -0.5 PERCENT. SECRETARIAT EXPECTS PUBLIC INVESTMENT TO PROVIDE IMPORTANT PROP TO DOMESTIC DEMAND IN SECOND AND THIRD QUARTERS BUT NO EXPANSIONARY IMPULSE THEREAFTER. INVENTORY DECUMULATION IS EXPECTED TO WORK ITS WAY THROUGH BY MID-YEAR 1975 AND RESTOCKING SHOULD BEGIN IN SECOND HALF. PRIVATE CONSUMPTION MAY RISE ONLY MODERATELY IN 1975, DUE TO LOWER WAGE SETTLEMENTS, HIGHER TAXES AND CONTINUED HIGH SAVINGS RATIOS IN FACE OF LABOR MARKET UNCERTAINTIES. NEVERTHELESS, HOUSING CONSTRUCTION IS EXPECTED TO PICK UP IN SECOND HALF. PRIVATE INVESTMENT MAY STOP FALLING DURING COURSE OF YEAR, BUT NO MAJOR RECOVERY EXPECTED IN VIEW OF RESTRICTIVE MONETARY STANCE AND LOW LEVEL OF CAPACITY UTILIZATION.

3. EMPLOYMENT: SECRETARIAT EXPECTS LABOR MARKET CONDITIONS TO CONTINUE TO DETERIORATE THROUGHOUT 1975 ALTHOUGH UNEMPLOYMENT LIKELY TO BE CUSHIONED BY DECLINING PARTICIPATION RATES. AN IMPROVEMENT IS FORECAST FOR EARLY 1976, BUT MAINLY IN FORM OF LONGER WORKING HOURS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 15493 01 OF 02 161733Z

AND REDUCTION IN DISGUISED UNEMPLOYMENT.

4. PRICES: FOR 1975, SECRETARIAT FORECASTS ONLY 9.75 PERCENT INCREASE IN CONSUMER PRICES. (JAPANESE SAID 12 PERCENT AT SHORT-TERM FORECASTERS MEETING), AND 8 PERCENT RISE IN GNP DEFLATOR. HOWEVER, SOME NEW IMPULSE TO PRICES MAY BE FELT IN EARLY 1976 AS COMPANIES SEEK TO REESTABLISH PROFIT MARGINS AS DEMAND PICKS UP.

5. POLICY STANCE: SECRETARIAT GIVES CREDIT TO JAPAN FOR ITS SUCCESS IN REDUCING RATE OF INFLATION AND BRINGING CURRENT ACCOUNT BACK INTO BALANCE. HOWEVER, THIS HAS BEEN ACHIEVED AT COST OF STRONGEST DECLINE IN ECONOMIC ACTIVITY IN 25 YEARS AND HAS CAUSED WIDESPREAD REDUCTION IN WORKING HOURS. SECRETARIAT BENDS OVER BACKWARDS IN EFFORT TO UNDERSTAND CONTINUING CAUTION OF JAPANESE DEMAND MANAGEMENT POLICY DUE TO EXISTENCE OF

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 15493 02 OF 02 161731Z

46

ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 EURE-00 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-03 INR-07 IO-10 NEA-10 NSAE-00

OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01

STR-04 SS-15 NSC-05 L-03 H-02 PRS-01 PA-01 USIA-06

AGR-05 /116 W

----- 058114

P 161715Z JUN 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC PRIORITY 7560

INFO AMEMBASSY TOKYO PRIORITY

LIMITED OFFICIAL USE SECTION 02 OF 02 OECD PARIS 15493

LATENT INFLATIONARY PRESSURES, AND NOTES THAT "IT WOULD OBVIOUSLY BE UNWISE TO STIMULATE A VERY STRONG UPTURN IN DEMAND WHICH COULD SPARK OFF A NEW INFLATIONARY SPIRAL." BUT SECRETARIAT CONCLUDES THAT MEASURES TAKEN THUS FAR MAY BE TOO MODEST TO ACHIEVE SUSTAINABLE UPTURN IN ACTIVITY AND THAT RECOVERY MAY PETER OUT IF THERE IS NOT SOME INCREASE IN CAPACITY UTILIZATION.

SECRETARIAT ALSO EMPHASIZES IMPORTANCE OF JAPANESE ECONOMIC RECOVERY FROM INTERNATIONAL POINT OF VIEW AND RECOMMENDS THAT JAPAN, AS COUNTRY WITHOUT BALANCE-OF-PAYMENTS OR SERIOUS PRICE STABILITY CONSTRAINTS, TAKE LEAD IN RE-EXPANSION OF WORLD ECONOMIC ACTIVITY.

6. POLICY MEASURES: SECRETARIAT CONSIDERS SOME FURTHER RELAXATION OF MONETARY POLICY TO BE DESIRABLE IN ORDER TO REDUCE INTEREST RATES, BUT ACCEPTS THAT "MAINTENANCE OF A RELATIVELY RESTRICTIVE STANCE MAY WELL BE DESIRABLE IN ORDER TO PREVENT TOO STRONG EXPANSION OF BUSINESS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 15493 02 OF 02 161731Z

FIXED INVESTMENT." IT RECOMMENDS THAT PRESENT EXPANSIONARY FISCAL POLICY BE SUPPLEMENTED BY ADDITIONAL PUBLIC INVESTMENT LATER IN YEAR, AND ADVISES JAPAN NOT TO LET SIZE OF BUDGET DEFICIT STAND IN WAY OF NECESSARY SUPPORT FOR ECONOMIC RECOVERY.

7. BALANCE OF PAYMENTS: SECRETARIAT FORECASTS INCREASE IN EXPORTS IN SECOND HALF AS WORLD ECONOMY BEGINS TO RECOVER, BUT ALSO INCREASES IN JAPANESE IMPORT VOLUMES. SECRETARIAT ANTICIPATES THAT TERMS OF TRADE WILL MOVE IN JAPAN'S FAVOR AS PRICES OF MANUFACTURED EXPORTS RISE FASTER THAN PRICES OF COMMODITY IMPORTS. THIS WILL PRODUCE TRADE SURPLUS OF AROUND \$6.7 BILLION, AND BRING CURRENT ACCOUNT INTO BALANCE FOR CALENDAR YEAR 1975.

8. MISSION BELIEVES THAT REFDOK CONCLUSIONS (ESPECIALLY PARAS 69 AND 72) MAY BE SOMEWHAT TOO CAUTIOUS. WHILE ACKNOWLEDGING UNDERSTANDING OF GOJ CONCERNS REGARDING POSSIBLE REGENERATION OF INFLATIONARY SPIRAL, WE WOULD PLAN TO SEEK SLIGHTLY MORE BALANCE IN FAVOR OF SECRETARIAT RECOMMENDATION THAT JAPAN NOT BE OVERLY CAUTIOUS IN ADOPTING MEASURES INTENDED TO TAKE UP EXISTING SLACK AND SET ECONOMY ON MODERATE 6 TO 7 PERCENT MEDIUM-TERM GROWTH PATH. IN PARTICULAR, WE ARE NOT CONVINCED THAT RESTRICTIVE MONETARY STANCE IS DESIRABLE "IN ORDER TO PREVENT TOO STRONG AN EXPANSION OF BUSINESS FIXED INVESTMENT," SINCE THIS COMPONENT OF DEMAND IS ONE OF WEAKEST ELEMENTS IN FORECAST (-9 PERCENT GROWTH IN PRIVATE INVESTMENT). IT WILL, OF COURSE, BE VERY INTERESTING TO SEE JAPANESE REACTION TO SUGGESTIONS THAT JAPAN HAS OBLIGATION TO LEAD WORLD OUT OF RECESSION, PARTICULARLY IN VIEW OF FORTHRIGHT BRITISH OPINIONS ON THIS SUBJECT AT RECENT OECD MINISTERIAL (REF B).

9. ACTION REQUESTED: SINCE ANNUAL REVIEW OF JAPAN MAY WELL INVOLVE ACTIVE DEBATE ON POLICY ORIENTATION, MISSION WOULD PARTICULARLY APPRECIATE COMMENTS AND

QUESTIONS FROM WASHINGTON AND TOKYO IN TIME FOR ANNUAL
REVIEW JUNE 20.
TURNER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, COMMITTEE MEETINGS, ANNUAL REPORTS, ECONOMIC ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 16 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OECDP15493
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750209-0483
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750647/aaaabqjv.tel
Line Count: 225
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 USOECD 15138
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 14 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 MAY 2003 by MartinML>; APPROVED <15 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PREVIEW OF EDRC ANNUAL REVIEW OF JAPAN, JUNE 20
TAGS: ECON, JA, OECD, EDRC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006